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IMPROVED MUNICIPAL FINANCIAL MANAGEMENT: CURRENT PRACTICES AND LESSONS LEARNED

Final Report

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EXECUTIVE SUMMARY

Key Findings

A review of three pilot municipalities--Hamrya (Meknes), Azrou, and Sefrou--and an analysis of other recent studies conducted in the area of municipal government management and finance reveals a number of weaknesses in their operations. In most cases, the difficulties they experience in attaining greater financial self sufficiency are endemic to the system of local government operation and finance. This results in two general recommendations: First, training and technical assistance targeted to these three pilot municipalities must address those common problems so that this experience is relevant to and replicable in other local governments throughout Morocco. Second, key central government ministries, notably Interior and Finance and their appropriate divisions, must be involved in the training and planning conducted at the local level in order to increase their understanding of local needs and to implement more effectively their own plans for further decentralization.

Currently, municipal government autonomy is restrained by a system of supervision and direction from central government ministries and their agencies. This lack of autonomy is reflected in a low level of initiative and motivation to search for solutions to inherent resource constraints and other problems. Municipalities have become accustomed to a flow of financial resources, advice, budget authority, capital expenditure planning, and information from above and have not been cultivated to create genuine capacity for themselves.

Municipal governments exhibit chronic inadequacies in the areas of resource mobilization, effective tax collection, financial management, planning, and forecasting; and in the identification, development, and financing of capital projects. They lack capital budgeting techniques and accounting systems designed to stimulate internal decision making. Their development of capacity on their own in these areas is further constrained by poor human resources and insufficient attention and resources at all levels to the management and training of current personnel.

Some problems are *systemic* and cannot be resolved wholly at the municipal level. Instead, resolution must result from an open and collaborative approach to these problems by both local and central government officials. These issues include constraints on the valuation and use of municipal assets, prohibitions on profit making from entrepreneurial activities at the municipal level, current budget and accounting system design, and the passivity exacerbated by the strong role of central government officials in a wide range of decisions affecting municipal government. The low levels of education and training present on the part of municipal employees must also include a role for the central government in encouraging training and human resource development.

Other concerns are *managerial* and can be addressed effectively at the municipal level through training and technical assistance targeted to local officials and personnel. These include the low rates of tax collection, inadequate capacity for financial projections and forecasting, the lack of objective capital budgeting techniques and their application, the politicization of certain local expenditures, weak systems of information, and poor human resource management.

This study examines these weakness and proposes an action plan that focuses on the improvement of municipal capacity to address forthcoming financial challenges and to attain a greater measure of self sufficiency that is essential to the achievement of national objectives of decentralization as well as local desire for self direction. Additional actions are proposed which would engage key Ministry or central government officials in a new approach to their responsibilities relative to municipal governments.

A. Introduction and Objectives of Report

The objectives of the mission were to identify the changes necessary to enhance the financial management and financial situation of the pilot municipalities with the goal of 1) increasing municipal financial resources to levels commensurate with assigned functions, citizen expectations and willingness to pay, and planned or required investment level; 2) improving municipal financial management, particularly accounting and budgeting, in light of the requirements associated with eventual access to credit and private financing; and 3) establishing in-house capacity for continuously monitoring the financial performance of the municipalities and adapting it to their growing responsibilities and requirements. Objectives of the mission included the preparation of an action plan that details the steps necessary for the introduction of these changes in the municipalities and to develop their capacity to continuously monitor and adapt their financial situations.

B. Methodology and Period of Report Preparation

The international and local consultants visited the three pilot municipalities of Hamrya, Azrou, and Sefrou in order to meet with local officials regarding financial practices, their financial situation, and needs and assessed their budgeting, accounting, and revenue collection practices. This assessment included the revenue base of each municipality and the constraints to expansion of revenue-generating activities. In addition, the consultants met with USAID/Morocco and with representatives of the Ministry of Finance/Treasury General and Ministry of the Interior/DGCL. Documents obtained from the local governments consulted include budgets, expenditure analyses, organizational charts, and year-end balance statements of revenues and expenditures. Additional written reports and documents were obtained and reviewed, including Ministry of the Interior reports on financial ratios, budget formats, and circulars regarding budget preparation, a DGCL paper on revisions in the value-added tax, and various studies undertaken by Moroccan academics on topics related to local government finance.

The period of field work was May 26 to June 13, 1997. As local government elections were held on June 13 following a campaign period of May 29 through June 12, it was not possible to hold meetings with municipal presidents and other elected leaders to discuss the activities proposed for the future with these individuals. Instead, it was agreed with USAID/Morocco that the local consultant would discuss the proposed action program following the report period. For reasons of these local elections, officials with the Fond díEquipement Comunal were also not available to discuss proposals for strengthening local government operations and access to credit.

C. Structure of Local Government

1. Functions of Commune or Municipality

The structure of government organization in Morocco functioned as a highly centralized system of decision making by the central government and execution by local governments under the supervision of central ministries operating through their local agents. In recent years, particularly since 1976, this structure has gradually decentralized greater authority to local units of government. This is especially the case with regard to the generation of revenues for the provision of municipal services.

As of September 1994, the total population of Morocco was 26,073,717.[1] This represents a rate of population growth of an average 2.06% per year in comparison with the previous census of population in 1982. During the period 1971 to 1982, population increased at an average annual rate of 2.6%. The urban population is 13,407,835 in this latest census, representing approximately half of the total. The rate of urban growth during the twelve prior years averaged 3.6% per year.

At present, there are 68 provinces and prefectures, with 248 municipalities. 48 of these municipalities have populations in excess of 100,000 and encompass more than half of Moroccoís total urban population. There are 14 urban communities which include groups of communes, while rural communes number 1298.

Municipalities include both rural and urban *communes*. Everyone resides within the boundaries of a commune; therefore, the boundaries of all communes are contiguous. A rural commune is one without a defined commercial center. Conversely, an urban commune is one which has a defined urban center; however, it may also include small clusters of residences or lone dwellings which lack an urban character on their own. In the case of the larger urban centers or cities, these may comprise several urban communes, each with a defined population as well as its own local government.

In ancient cities such as Fes, the *medina* or walled city is a defined and separate commune. Fes has three additional communes which house the more modern sections of the city, plus four rural communes, with a total population in all eight communes of 101,853.

Each commune has an elected president and council which serve six-year terms of office. The size of the council is based on the communeís population, with a maximum of seven. Municipal responsibilities are determined by the Ministry of the Interior and may be communicated in a proclamation of the King that is known as a *dahir* or through administrative circulars issued by a Ministry. Following the 1976 decision to convey greater responsibilities to municipal governments, a dahir was issued which delineates the responsibilities and powers of the communes.[2] The dahir notes that communes have both a ìmoral personalityî and ìfinancial autonomyî in their management.

The president and council must meet in public sessions, with their actions posted for public access. They are charged with deciding on measures which lead to economic, social, and cultural development and for the formulation of local development plans which are oriented to the achievement of national development objectives. This includes the expectation that the local

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[1]Kingdom of Morocco, First Minister/Minister in Charge of Population; Recensement 1994.

[2]Kingdom of Morocco, Impremerie Officielle, 1976, Organisation Communale: Organisation des Finances des Collectivites Locales et leurs Groupements.

council will propose to the central administration those measures which they define as necessary to contribute to development but which exceed the capacity and resources of the municipal government. The council is responsible for the identification of projects and services needed as well as for their planning, implementation, and management.

With regard to municipal finance, the council is charged with approving the municipal budget prior to its submission to the Ministry of Finance for approval. The council is also responsible for loans and guaranties, for the establishment of budgetary accounts, for the acceptance and payment of all loans and credits, and instruments for application by municipal personnel for local tax collection, for the exploitation of public lands and resources within the commune, and for the granting of concessions and alternate forms of provision of public services. Additional responsibilities include the regulation and construction of roads, sanitation, solid waste collection and disposal, and the regulation of commerce within the commune.

Health and education services within the commune are the responsibility of the province or prefecture. A municipal government may identify needs, for example, for the development of additional school facilities and the employment of additional teachers, and may request that these be provided by the appropriate Ministry acting through its provincial or prefectural division.

Water and electricity are not the domain of the municipality. These services are developed, delivered, and maintained at a district level by district water and electric authorities, or *regias*. Typically, a single authority will provide service to all residential, commercial, and industrial consumers within a group of neighboring communes. It is not necessary for municipal governments to have a role in the provision of these services or in the collection of their fees. The authorities determine service charges and collection policies and may cut off service in response to nonpayment. They may also borrow funds from agencies of state government created to provide loans for infrastructure and related equipment and facilities.

Budget Function: The municipal government must prepare its own budget in a manner consistent with several criteria. This budget is prepared by the municipal staff and must be approved and adopted by the president and council before it is sent to the Ministry of Finance (MOF) for review and approval. First, the budget must project an equilibrium or equality between receipts or revenues and expenditures. In the past, it was possible for municipalities to forecast a deficit situation. With the increase in responsibility delegated to municipal governments as a result of recent legislation, all must now show either an exact equality between receipts and expenditures or a surplus to be applied to future activities. Second, the budget must be presented in accordance with specific line items and categories set forth by the Ministry of the Interior. This guidance, at the present time, takes the form of circulars related to budget preparation. However, it is worth noting that, under the new TVA system, these circulars are less directive than in the past.

Third, the expenditure side of the budget must be divided into two parts--operations and equipment. MOI determines certain essential components of the operating budget to insure that sufficient resources are allocated to the payment of municipal personnel and other nondiscretionary items. The ìequipmentî side of the budget records capital items, both those to be purchased directly with the resources of the year in question and those to be acquired with loans from the FEC. In the case of Morocco, it is the operating budget that indicates the principal and interest payments expected to meet outstanding FEC obligations or, in other words, the current portion of the capital budget.

The municipal budget, once it is approved by the president and council, must be submitted to the Ministry of Finance and the Ministry of Interior for their approval. Approval will not be granted if the budget is not in equilibrium--that is, if projected revenues and expenditures do not balance. Other reasons for the withholding of approval include the projection of a fiscal deficit or the apparent poor prioritization of resources to permit the development of nonessential projects while essential ones are not funded. In addition, scrutiny includes the verification that essential expenditures will be covered.

Before TVA reform, these rejections were rare, representing the channeling of local priorities to the Ministry of the Interior by way of the provinces. After reform, these priorities are examined by the lender of funds, notably FEC, given that there are only two sources of finance: self-financing and loans.

At the end of the year, a balance statement must be prepared by the municipality and submitted to both ministries. This again must equate revenues and expenditures, with any surplus designated as savings for the future. Unexpended amounts in line items of the operating budget may be ìannulledî or canceled. This procedure entails certain action on the part of the *ordonnateur*, who may designate such funds as a reserve available for capital expenditure or as an operating credit to add to the closing balance for fixed asset maintenance.

The procedure of canceling unexpended operating balances comes from the accumulation of arrears in the sense that the canceled credits are available as well as the mandated amounts. However, following the reform of the TVA allocation system, this cancellation procedure in the hands of the *ordonnateurs*, as noted above, is no longer justified because the local municipality is free to dispose of its projected savings from the beginning of the year.

Taxation Function: The Ministry of Finance/Treasury General appoints an *ordonnateur* for each commune. This individual must oversee the collection of taxes which are shared with the central government and which are essential to its operations. Such taxes make up 5% of the central governmentís revenues. The communes levy and collect three taxes which are shared with the state: The *urban tax* and the *taxe díedilite* or sanitation tax are based on property values or rents, which provides for the collection of solid and liquid waste. In addition, the *business tax* is imposed on all local businesses. Beyond these central government taxes, there are thirty-seven local taxes collected by the municipal collector or *regisseur*.

Expenditure Function:
The Ministry of Finance/Treasury Department appoints an individual to fill the position of *receveur* in the municipal government. The percepteur has a dual role. He must act as controller of the local budget, verifying that credits are available and that funds are sufficient for the expenditure proposed. In addition, he authorizes each expenditure before it can be executed.

Clearly, the Treasury wishes to ensure that the budgets they approve are operated within a system of tight controls. The solution in place is one in which the *percepteur* is charged with budgetary control. Under present circumstances, it seems that this approach was regarded as the most effective way to ensure that the objective of the central government in controlling budget resources is met.

2. Supervision by the tutelle

The relationship between the central administration and the local municipalities continues to evolve. Major responsibilities have been transferred to the municipalities in diverse areas, notably the management of human and financial resources and the development and maintenance of infrastructure. The majority of functions exercised by the municipalities report to responsible central government officials in the Ministry of the Interior. This supervision is inscribed in the system of *tutelle*. The objective of this administrative supervision by the Ministry is one of checks on municipal satisfaction of basic local needs with regard to essential services. This is particularly important with respect to the establishment of priorities by municipalities in light of TVA reform and its financial consequences.

Other than the *tutelle* role, the Ministry of the Interior permits access to loans for the development of municipal services, particularly infrastructure such as sewerage, through the Fonds díEquipement Communal (FEC), which provides long-term credit to eligible borrowers, as discussed later.

The Ministry of Finance exercises its supervision over municipal governments with regard to budget management and the levying and use of taxes. This relationship is complex and consists of a certain number of prerogatives corresponding to each of the municipal financial functions, namely budget, taxes, the use of resources and expenditures.

Resource Allocation Function: The government has replaced its subsidy of operating deficits to local governments with a transparent system of redistribution of TVA receipts as a function of a combination of criteria relative to demographic and fiscal factors along with effort shown by each local commune. These contractual criteria equalize the allocation of receipts for all local governments. The criterion of fiscal potential addresses resource inequalities, while that related to the utilization of resources permits the remuneration of effort in developing resources deployed by the municipality.

According to the new system introduced in 1996, 30% of the TVA resources are distributed at the ratio of 70% to support the operating or capital budget. 15% serves to cover capital expenses transferred to the responsibility of the municipality, such as projects undertaken jointly. The 5% remainder addresses unexpected or emergency expenditures. It is worth noting that 15% corresponds to the charges transferred by the state to subsidiary authorities such as those which deal with sanitation or schools established by the ministries. The 70% allocated for local budgets is intended to strengthen municipal capacity to initiate development projects and other capital expenditures, particularly in collaboration with FEC borrowing.

During the period 1990-1993, the TVA represented 46% of municipal resources. An equal share came from taxes, with approximately the same revenues from the 37 local taxes as from the three shared taxes collected by municipalities in cooperation with the central government. The remaining 8% of resources utilized by local governments came from borrowing--primarily from FEC. The greater sharing of TVA resources has increased the number of municipalities reporting budget surpluses, with the Ministry of the Interior reporting that this proportion has risen to 74% of all municipal governments.

The concept is to encourage municipal governments to leverage FEC loans with the TVA resources they receive. While the notion of leveraging is not explicit and could be made a stronger component of local government financial planning, it is nevertheless clear that the central governmentís tightening of borrowing patterns is made possible by this TVA allocation, which can be used to meet the 20% local contribution required for investment in each project submitted to FEC.

D. Change and Reform Affecting Local Government

1. Decentralization

The long-term plan for decentralizing greater autonomy and responsibility to municipal governments continues. This plan has been gradual, with various degrees of decentralization authorized and promoted by the central government in 1976, in 1986, and again in 1996. Certain recent changes are important to understand both for their impact on budget preparation and management at present and as indications of the philosophy and extent of the Stateís efforts to relinquish a measure of its control to local governments.

Until recently, municipalities could propose budgets which would result in their deficit financial position but which were, nonetheless, necessary to sustain essential operations of the municipality. The result was likely to be a transfer of resources from the central government out of its receipts of the TVA[3] nationwide. In essence, this practice provided subsidies to both less viable municipalities and to those which had not increased local revenue collections at a rate sufficient to keep pace with expenditures. The Ministries of Finance and Interior ended this hidden subsidy through the adoption of more stringent budget requirements for municipalities and through a transparent and objective allocation of TVA resources.

From another viewpoint, it can be argued that the Ministries of Interior and Finance viewed the common appearance of deficit budgets as indication of a lack of fiscal strength and responsibility among municipal governments as a whole, with the result that this lack of demonstrated financial capacity reinforced a set of policies restraining the accordance of autonomy. There is, in fact, a financial reason for the perception that local units of government lack the monetary and managerial capacity to govern their own affairs completely: According to the Ministry of the

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[3]The TVA, or *taxe a la valeur ajoutee*, is a value-added tax levied on the increment to all goods and services produced. Due to its common usage in this discussion, the French abbreviation is used. Currently, the TVA is levied at the rate of 20% on retail sales.

Interior/DGCL, local government revenues provide only five percent of total public sector earnings, while municipal expenditures account for ten percent of all public sector expenditures.

The current view among officials in the central government is that the budget development process must be strengthened at the local level, along with the improvement of revenue sources which will permit greater outlays for both operating and capital expenditures.[4] Many in government recognize that this is a period of major transition for municipal governments and, in turn, for their *tutelle*.

Prior to 1986, there were seven economic regions in the country. With the introduction of the 1986 reforms, this number was doubled, with the fourteen new economic regions having greater autonomy for economic and social planning as well as finances. Each region has an assembly to decide on economic and social matters and a budget provided by the state. Responsibilities include the establishment and operation of universities, health, and the promotion of generation economic development. Resources for this budget come from a share of the central governmentís revenues from income tax, company tax, and TVA. As yet, there does not appear to be a system of clear and fully-developed economic development planning at the regional level. As with many aspects of recent laws affecting decentralization, this one appears to be stronger in design than in implementation, with the law reflecting direction and aspiration for change rather than what local decision makers are capable of carrying out at present.

2. Transfers and Subsidies

As described above, the TVA has become the major source of transfers between the central government and the municipalities. Direct subsidies from the central government no longer function as a form of fiscal rescue from poor internal financial management at the municipal level. It is expected that municipal operations will be fully financed by local tax revenues, with TVA allocations making the capital side of the budget both larger and more viable in terms of municipal capacity to access funds reliably and to use them to provide those capital investments which are necessary to provide essential facilities and services. The TVA currently represents 20% of all revenues obtained by the central government; but 6% of central government revenues are transferred to the municipalities. The emphasis on the part of the Ministry of the Interior/DGCL is to remedy this situation and to make local governments fully self-sustaining (including their share of the TVA).

3. Borrowing Opportunities and Access

FEC emphasizes the municipal governmentsí primary role in the identification and formulation of projects for which FEC credit may be extended. FECís concern is that the borrower understand its own financial situation as well as its potential for debt and the obligations it incurs once a borrowing takes place. Currently, municipal governments must limit their borrowing to 40% of their total annual budget. Borrowing has been permitted to sustain operating deficits as well as to finance capital expenditures. The amount or share borrowed for current expenditures compared

[4]Meeting with Mohamed Tijani Es-Kali, Director of Local Finances, on 26 May 1997.

with capital expenditures must be examined on a case-by-case basis with respect to each municipality, as there does not appear to be a limit imposed with regard to the proportion of debt applied to deficit financing. While the specified 40% is the maximum share of each annual municipal budget that can be assigned to debt service, it is the declaration of general policy of FEC that determines the actual borrowing capacity and ability to service debt in accordance with the position of the Ministry of the Interior regarding the assignment of revenues to essential expenditures and to activities which, in its view, are consistent with local needs. Of course, the rate of loan repayment is a primary concern and is critical to decisions by the FEC regarding the extension of future loans to a particular municipality.

New requirements were introduced by FEC to increase the share of self financing of projects by municipal governments. During 1996, FECís expectation was that 10% of the financing of each project would come from municipal resources. This share was expected to increase to 15% in 1997, followed by 20%.

In addition, FEC now requires that applications from borrowers include approved administrative accounts for the past two years as well as the current budget. Loans in excess of forty million dirham (over $4 million) require submission of a balance sheet and audit.

FEC undertakes its own evaluation of loans with regard to their impact on the achievement of project objectives. In advance of lending, it examines parameters established for the municipality in terms of its budget, required expenditures, and areas defined for its development, as well as recent assessment or reassessment of its tax base. In addition to its past experience with loan repayment, the identification of taxes available for collection and its ìfiscal potentialî are considered. With regard to the assessment of borrowing capacity, the FEC also assesses local capacity to exert control over expenditures and the potential to save from within normal municipal operations. It is particularly concerned about the ability of local governments to devise systems of budgetary control which will give priority to outlays necessary for loan repayment. In many municipalities, costs that are not able to be paid during the fiscal year are put off until the next year. Clearly, the FEC seeks to avoid such practices on the part of its borrowers--at least with respect to the share of the budget required for debt service.

The FEC recognizes that there are weaknesses in the technical and financial analysis of projects proposed by municipalities for borrowing, and understands that borrowing and investment decisions are strongly influenced by political considerations at the local level. In FECís experience, there are many weak administrative personnel in the municipalities, while others have clear objectives and capacity for decision making.

4. Taxation and Financial Reforms

Taxes are levied both by the central government and by municipalities, with national income tax, company tax, and the TVA (value-added tax) the principal sources of state revenue. Municipal governments must collect the urban, sanitation, and business taxes and share them with the state, while an additional 37 local taxes are charged to provide additional revenue for the operation of local government. The taxes which must be charged and the rates at which they are levied are set by the central government. According to the Ministry of Finance/Treasury Department, the share that municipalitiesí own resources represented as a share of their total expenditures steadily declined during the period 1989--1995, falling to a level at which total municipal resources represented only half of budget requirements. TVA resources have become critical to meeting this resource shortfall, making up nearly 50% of budget requirements for the composite of all municipalities during 1995.

This composite picture maintained by the Ministry of Finance reveals some critical trends, as well. In 1989, half of all expenditures made by municipal governments in Morocco was spent on personnel, with 9% required to meet the current portion of debt. While personnel outlays were reduced to 26% of all expenditures in 1995, the share represented by debt had risen to 43%, leaving 31% for other operating expenditures in comparison with the 41% available in 1989. The following tables provide a summary picture of local government finance.

Comparison--1989 and 1995 Municipal Revenues

year	urban tax %	sanitation tax %	business tax %	revenue from goods	sales	local taxes	TVA
1989	19%	39%	0%	17%	9%	3%	13%
1995	4%	13%	11%	8%	6%	9%	50%

Comparison--1989 and 1995 Municipal Expenditures

year	personnel	materials	council expenses	debt	subsidies	other
1989	50%	39%	1%	9%	0%	1%
1995	26%	31%	0%	43%	0%	0%

5. Sources of Local Government Revenue

It is argued that the local government finance system is subordinated to that of the national system.[5] Just four to five percent of municipal revenues come from their own production of goods. For services, their withholding is estimated at 19%. The price paid for services fails to recover costs fully. Municipalities cannot determine their own tax base or the rates to charge and must conform with the centrally-designed system. Overall, this system is poorly adapted to local governments playing a major development role.

Current sources of local government revenue may be grouped into four categories, each of which will be discussed in turn. These include

Taxes shared with central government
Local taxes
Income from goods and services
Transfers

Shared Taxes:

There are three shared taxes. The *tax urbaine* or urban tax and the *taxe díedilite* are levied on buildings, construction in progress, and primary or secondary residences, with a 75% rebate for oneís principal home. The tax rate is progressive, ranging from ten to thirty percent after application of an exemption of 3000 DH ($325). The tax is based on the locational value of property as determined by each census or assessment.

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[5]Mohamed Sbihi, Professor, Faculty of Law, Mohammed V University, Rabat, La Gestion des Finances Comunales.

The business tax or permit charged for business operations provides 90% of revenues collected to the municipal government and 10% to the state. With regard to the TVA, 30% is allocated to the municipalities as discussed above. The business tax represents concern for the municipalities aggregated in the heart of urban centers. Since 1992, the share of business tax resources is allocated on a *pro rata* share based on population, with a certain inequality affecting municipalities endowed with important resources.

Local officials and analysts argue that there are cases in which one municipality generates considerable business tax revenue, only to have to share it with the other municipalities in the same city, with the result that local officials have little incentive to create and administer taxable revenues.

Transfers:

These include the 30% of the TVA allocated to municipalities as discussed above.

Local Taxes:

There are thirty-seven different local taxes which must be levied by most municipalities. These fall into six categories or sectors. Those related to the *administrative* sector include taxes on legislation, roads, and admission to the impoundment lot. In the *land* sector, taxes are charged on land, machines, construction equipment, on land parcelization or subdivision, on temporary occupancy of land, and on undeveloped land. *Industrial and commercial* taxes include those on sales in public areas such as sidewalks, taxes on early openings and late closings of commercial establishments, taxes on drinks, carpet sales, mineral water, forest products, wholesale markets (including fish markets and abbatoirs), and hunting and fishing licenses.

In the *transport* sector, there are licenses to drive as well as taxes imposed on motorcycles (with engines over 125 cc) and on taxis and other public vehicles. In the sector classified as *tourism*, there are charges on hotel rooms, on spectacles (such as movies and concerts) and on video rentals. Local *professional* taxes include those on establishments such as private schools and on places of business.

The rate of collection varies between sectors and, of course, among the municipalities themselves. Based on studies available, it appears that the most effective taxes with regard to rates of collection are for taxis, automobiles, sales of forest products, and mineral water served at restaurant tables.

These revenues are kept wholly by the local government; however, they have no discretion over the charges or rates of tax or the level of resources expended in their collection. Penalties are charged for late taxes at the rate of 10% per month on outstanding balances. Reasons for nonpayment of local taxes include the unavailability of funds to pay on the part of taxpayers, change of residence from one municipality to another (without an adequate system of keeping track of these movements), inadequate effort on the part of local tax collectors, and taxpayer resistance to taxes that they view as too high.

In a report on 59 urban municipalities, the Ministry of the Interior found total receipts of 1,600,409,349 DH in support of operating budgets and 2,097,025,636 DH for capital budgets. These revenues compared with 1,297,193,304 DH for operations. Overall, this means an operating surplus of 303,216,045 DH for this group of municipalities. Of revenues received, over half (57.25%) are from the urban tax and sanitation tax collected in conjunction with the state.

Income from Goods and Services:

Many municipal governments or *communes* have resources in the form of urban land or forests which could be used for the development of profitable activities. Often, public land is developed into lots for sale or is the site for construction of public markets. In such cases, the municipal government is permitted to recover its costs but is prohibited from making a profit. There are at least two sets of problems with regard to this policy. First, the local governmentís inability to generate a profit means that land or facilities (such as markets) are being delivered into the market at a price which may be less than the market price. This may result in distortions in the market for developed land and shop premises, as price is determined only by cost and not by demand. Second, it is doubtful that *total costs* are incorporated into the price charged by most municipal governments. Specifically, with accounting systems that record only current outlays, it is unlikely that the base of information exists for the determination of indirect costs and their assignment to the prices charged by local governments for goods--such as developed land--or services. Cash outlays, including the recorded price of land, actual construction costs, and the installation and operation of water, electrical, and other services may be fairly assessed and incorporated into the prices charged. Time spent by municipal personnel and the depreciation and operating expenses related to municipal equipment is probably not included.

There is no cost accounting performed at the local government level; therefore, prices charged for goods and services that result from local government effort are unlikely to account for all costs. While current local sales account for only a small share of revenues, these are likely to offer among the greatest opportunities for change and expansion in the area of revenue generation. The introduction of cost accounting is also likely to enhance local determination of true cost recovery rates for municipal services such as sanitation as well as better assessment of comprehensive capital costs for investment projects. Charges are required for services provided by the municipality and the utility authorities; however, rates are set by the commune, approved by the Ministry of the Interior, and are not always sufficient to cost recovery.

In the above-referenced study by the Ministry of the Interior, revenues from goods and services sold by the same 59 municipalities represented 19.8% of all operating receipts.

E. Case Studies

Case Studies: Common Issues

1. Background and Current Status

The structure of government operations, information and decision making in Morocco has been one of top-down leadership, with the identification of new actions coming from the central government for implementation by municipalities. This structure has contributed to the development of an operating perspective in which each successively lower level of government looks to the one above for advice, for guidance, for resources, for permission to act, and for the identification of those projects and activities which will be met with the approval and funds necessary for their implementation. The *tutelle* system of the ministries, particularly the Ministry of the Interior, has been criticized by some within Morocco for its patronizing approach to local government, with the *tutelle* functioning as the parent or mentor in its relationship with municipalities, whom the *tutelle* regards (and treats) as minor children who are unable to act alone. Compliance with this *tutelle* approach by local government officials--regardless of any underlying desire for change--has led them to maintain a comfortable status as protectors of the resources and decisions controlled by others. Many municipal officials choose not to assert themselves or propose a more active role in the development of their communities.

Within each municipality, civil servants also wait in response to the directions forthcoming from the President and council as to the allocation of resources, particularly on the development or *investissement* side of the budget. Many complain that these allocative decisions are politically motivated as well as short-sighted in their horizon and impact; and such allegations may be true in objective terms. There is a sense of waiting and hoping for change on the part of local civil servants, however, who view themselves as mere implementers of decisions that higher-level elected and Ministry officials will make regarding resources and their disposition. Their passivity is encouraged by this top-down structure, and their lack of action impaired by a world view that they are mere cogs in the machinery of local government who must sustain its operations but who cannot change its direction. In reality, many civil servants lack either the exposure or the training which may motivate them to initiate change, to question traditional practices, or to offer alternatives to the dictates from above.

Exposure and training regarding new ideas and practices are precisely the activities which can lead to the motivation for change and provide an avenue for the implementation of suggestions for improvement.

Strategic financial planning and project development can be undertaken within the current structure, and the *tutelle* is asked to be flexible to the acceptance of this approach. Civil servants in the pilot municipalities (or, indeed, anywhere) can be encouraged and assisted to identify and design the set of capital investments which are necessary to achieve local economic development objectives. These can be presented to their elected leaders as a package or, better, can be shared as ideas with elected leaders who would then be invited to help to shape them into a set of development activities. This activization of municipal staff requires certain inputs which are expected to have a long-term impact.

In order to do this, municipal staff must have improved professional skills. Skills needed include financial forecasting and analysis with respect to both operating and capital budgeting activities, urban planning and management, revenue collection, human resources management, and project identification, development, and management.

Training must be provided in such areas as capital budgeting and project planning and analysis must be applied as it is provided, requiring participants to be engaged simultaneously in learning and in applying new skills to their own local governments. Initial efforts may focus on the identification of a set of projects or investments required by each target municipality, along with the formation of a vision of its economic development prospects and objectives during the coming five to ten years. Ideally, political leaders will participate in the formulation of this vision if not in the training related to the analysis of the alternatives presented.

As training is provided in the clarification and definition of projects, participants will apply this new knowledge to select capital investments activities most likely to contribute to the economic development objectives formulated. Representatives of the *tutelle* and relevant offices of the Ministry of the Interior should be invited to participate in this training in order to achieve several purposes. First, their relationship with municipal governments must change from one of oversight and resource allocation to one of collaboration in the effective achievement of local development objectives. Participation in training sessions which immediately apply themselves to local planning and project design issues is one means of inviting this collaboration. Second, MOI officials are likely to understand better the resource and planning constraints experienced by untrained municipalities through participation in this activity. Third, their participation may lead to insights and even changes related to the operation of the FEC, other MOI and MOF divisions relative to local governments and their selection, design, and implementation of development activities and the assessment of their financing requirements.

Overall, a professionalization and activation of municipal employees is required as a foundation for improved local development planning and implementation, more sound financial management and decision making, improved revenue generation and utilization, and for the attraction of more qualified people to employment opportunities in local government. Clearly, revenue generation at the level of municipal government is essential if salaries are to be raised to levels which will attract individuals with higher qualifications. In the short run, however, the employment of new individuals is a less likely strategy than others which might be considered. It is necessary to begin with the premise that there are some competent and dedicated professional or semi-professional employees in every municipal government; therefore, the first challenge is to improve their competence and motivation for the work at hand. When monetary rewards are not possible, the potential rewards of opportunities for improved status, quality of work, and opportunity for impact are also valued by workers and can serve as significant motivating factors to acquire training and information and to apply it to the benefit of their community.

This professionalization must support the broader objective of stimulating local economic development and, therefore, must include human resource development and planning, urban planning, and the preparation and use of analytical tools for the prioritization and selection of projects or capital investments.

The creation of professional qualifications and their value and recognition by governmental and nongovernmental employers can also assist in raising the standard of employees. Training initiatives must emphasize both the development and immediate application of technical skills and the recognition of those who have acquired a level of expertise. In the short term, the provision of certificates for training successfully completed will begin to set apart those who have acquired new skills from those who have not. Over the longer term, the expansion of opportunities for training and professional development may be encouraged in partnership with Moroccan universities and training institutes.

The position of secretary general may benefit from professional development efforts as much as lesser positions in municipal government. Critical skills which holders of such positions require in order to meet the demands of an environment which requires local initiation of development and the resources to finance it include urban planning and management, financial analysis, and human resource management. Those municipalities which expect to undertake significant initiatives in the area of economic development will require the skills of professional city managers, who have the above skills in combination with exposure to the effective techniques applied elsewhere.

Isolation and the lack of information contribute to low productivity and the paucity of both ideas and a sense of experimentation. Conversely, information sharing and access to the experience of others can be powerful tools in the improvement of local government officials, both elected and not. Three recommendations are relevant for the alleviation of the insufficiency of information and of attention to valuable indigenous experiences. First, associations of mayors/presidents, of city managers/ secretaries general, and of economic development planners or analysts would facilitate the sharing of information and best practices among local governments. The creation of such associations should be encouraged and need not be expensive. Initial training efforts can suggest the maintenance of linkages among participants through the creation of the initial associations. Second, the development of data bases and computerization among the target municipalities will provide them with the ability to rely on their own information and to identify and track trends as well as assess performance or output of each investment. Third, the public recognition of best practices is important to communicating local experiences and to the understanding that local solutions may be developed and applied to local problems. Such recognition may come about through the creation by MOI of awards which call attention to municipal efforts to address local needs with innovative solutions. Awards, for example, may be given annually either nationally or by province, and could provide the opportunity for local governments to submit their ideas and practices in a friendly competition whose added purpose is the generation of ideas and project concepts to be shared throughout the country.

This can be a low-cost effort which will attract local contributions to achievements in such areas as the development of local resources, improvements in tax collections and financial management, streamlining local practices and introducing cost reductions, innovative partnerships with the private sector, the preservation of historical districts and medinas, economic development, and others.

2. Revenue and Expenditures

Particular emphasis needs to be placed on the identification of development activities which also generate revenue for municipal governments. Among the avenues which may be investigated in this regard are municipal development of land for commercial purposes, including not only the usual shops and markets but more comprehensive area development schemes that maximize cooperation between the municipality as instigator and private sector developers as builders. The objectives of such projects would include not only the planned development of integrated commercial and residential or commercial and industrial premises, but the provision of amenities--such as parking facilities and pedestrian access--which make these developments more attractive and in demand among local consumers and businesspeople. Economies of scale could be realized which could be passed on to the municipality in the form of earnings from the sale of developed lots, housing and commercial units. Such earnings could be transferred to other municipal ventures which are less able to recover all costs on their own--such as roads--but which are determined to be essential components of the local economic development plan.

Currently, municipal governments are active developers of revenue-generating projects such as markets; however, they are prohibited from earning profits for their work. As they lack systems of cost accounting, it is doubtful that governments recover their staffing and other nonconstruction costs as a result of the process of project development. In the current environment, municipalities which develop facilities such as markets are restricted to renting them at a rate which is just sufficient to recover those costs measured, which appear to be limited to debt service on construction plus actual operating costs such as power and water. This means, in effect, that local governments are subsidizing the private sector by undertaking land organization and development and construction for free, then charging business owners only that level of rent which meets post-design costs. It is true that there is a strong desire to pursue such projects, as these are able to generate income to meet debt service and other financial demands more readily than projects in other sectors, such as road construction and improvement, which cannot generate cash flow.

Training in cost accounting and the addition of planning and predevelopment costs to project costs for purposes of determining rents and other charges can address this issue in part. It will be necessary to insure that the prices resulting from comprehensive cost accounting can be applied to municipal projects which are rented, leased, or sold to those in the private sector. Beyond this recommendation, it would be more desirable to insure that municipalities can initiate projects on a full market basis, charging those prices for rent or sale which the market will bear. The profits from such developmental activities could be used as transfers to those activities which without the same strength of profitability but which are essential to local development.

At this time, an interesting dynamic has emerged with respect to local project selection and development. Under pressure to function with greater autonomy as well as with fiscal constraint, local governments have exhibited a preference to execute those projects which will generate revenues sufficient to meet debt service requirements without straining further their stressed operating budgets. As a result, the development of markets and souks has become popular. It appears that this preference exists on the part of municipal employees who must manage the resources of the municipality in a manner which balances the other capital expenditures selected by elected representatives in response to popular demand.

This conflict between the demands of the people and the demands of the market (and of the financial viability of the municipality itself) is likely to be resolved only through the process of strategic financial planning and the subjection of projects to unbiased financial analysis.

Development exactions and the creation of special development districts also offer potential as sources of revenue generation for active municipalities which desire urban upgrading, including the improvement of conditions in the *medinas*. In a development district, a levy or charge is issued to each potential beneficiary on a basis which addresses expected benefit and willingness and ability to pay in combination with the projectís financial requirements. The creation of development districts has proven to be an effective technique for upgrading existing communities through the provision of improved streets, pedestrian walkways, lighting, public safety, solid waste collection and disposal, and the like.

3. Reporting and Information Requirements

Ideas about project and initiatives of greatest value to residents, along with essential information about their willingness to pay for improvements, are likely to be generated most effectively through open public forums or meetings designed to elicit the untapped resources of the community. Where nongovernmental organizations or informal community groups already exist, these might serve as the points of contact as well as organization of broader public forums for the discussion of community needs and resources. The involvement of the public as a whole or the members of the community or neighborhood targeted for improvement is likely to have at least two positive outcomes: First, it will create support for the activity, including the charges or fees required to provide it. Second, it will elicit volunteer interest in participation, particularly if it is clear how participation may reduce cost. This is especially relevant in projects involving community solid waste collection and disposal, public safety, and the creation of amenities such as parks or plantings which have low requirements for skilled labor. As people participate and see results, they are more likely to foster the development of community associations and other suitable vehicles to generate additional improvements and small projects.

The value of these recommendations lies in their impact on the municipal governments in which they will be applied. The measurement of this impact may not be an entirely objective process; however, there are certain indicators of performance which can be applied as well as used to compare with other municipal governments that have not adopted any reforms or changes in their processes. The ratios utilized by the Ministry of the Interior are useful as indicators of financial performance in local government, and will be monitored in this project with regard to the municipalities of Hamrya, Azrou, and Sefrou. In particular, increases in tax receipts and increased revenues per capita will be tracked, along with the monitoring of new or non-tax revenue sources both in terms of their total value and with regard to the share of total municipal revenues these new sources represent.

New projects and investment opportunities will be analyzed on the basis of standard tools of financial and economic analysis so that the costs and benefits of capital expenditures can be assessed relative to their time horizon and that of relevant sources of credit, such as the FEC. Wherever possible, basic concepts of cost vs. benefit or input/output analysis will be applied, providing an increasing volume of data concerning the feasibility of projects as selected and their actual contribution to the local economy over time. As there is no *ex post* evaluation of projects at present, the introduction of this approach to the assessment of municipal projects will provide guidance regarding future investment decisions and the risks or variances which may be experienced in practice. In fact, the preparation of templates for *ex ante* analysis as well as frameworks for the analysis of projects following their implementation will provide valuable tools for other municipalities to apply in the assessment of similar capital projects.

Additional outcomes are also important but more difficult to measure. The current level of mistrust of local government by the business community, in particular, and by the public in general is expected to be mitigated by the creation of greater collaboration and opportunities for the exchange of ideas and sharing of priorities. While a new openness in the environment in which local government decisions are made is expected to contribute to the efficacy of project development as well as to the contribution of these projects to economic development, it is, nevertheless, difficult to measure or to verify the impact of community participation. Two alternatives may be explored over time. First, the *level of participation* may be measured in terms of the number of community-based organizations and their representatives involved in local project design and execution, for example, as represented by the number of volunteer hours contributed to public undertakings. Second, *public opinion* may be assessed through the engagement of local media in the design and implementation of public opinion polls. Local officials might also invite public opinion through the creation of ìsuggestion boxesî and the invitation of interaction through a variety of measures ranging from correspondence to the invitation of the municipal President or council members to address local organizations such as the Chamber of Commerce.

Obstacles and Approach to Change

Public participation is a new concept for Moroccan local government. Participation is most active in the form of open elections of local officials, held on June 13. Following the conclusion of this fundamental democratic activity, most citizens will adjust to the changes brought and accept the decisions made by their elected leaders with regard to the management of community life and the investment in improvements to enhance its quality. The effectiveness of local government is measured primarily by the publicís response to the candidates presented at the end of each six-year period.

Despite the lack of active participation in decision making traditionally, a number of steps can be taken to encourage public involvement. These include the direct invitation by the president and council to Chambers of Commerce, Industry, and Agriculture to participate in public meetings at which views may be welcomed regarding projects and services needed by the public. Existing community organizations or associations may also be invited. The tradition of creating commissions to investigate public needs, such as health or education, is already established. To date, these commissions have included only elected council members and municipal employees. It is recommended that the membership of these commissions be expanded to include representatives of business, agriculture, or other affected and interested groups.

Among the commissions commonly established is a planning commission. This needs to be dynamized and transformed from its usual moribund state to an entity which can formulate a long-term vision of municipal life and lead the process of identifying those activities necessary to achieve that vision. This same commission might function as the chief engine for the identification and development of capital investments necessary for local economic growth. Its inclusion of the business community will facilitate the identification of new roles for the private sector in the development and delivery of municipal services and improvements, including public/private partnerships, privatization of service delivery, and the application of new technology to the demands of local life.

While such collaboration will not happen automatically, it can be achieved through a combination of training and exposure to new ideas and practices. The isolation in which municipal government operate will remain an impediment to dynamic local development unless it is reduced through the provision of opportunities to examine new approaches. As discussed above, therefore, training must be applied immediately to the solution of local problems and must be complemented with exposure to the best practices currently in existence in the rest of the country.

Current municipal accounting and financial practices also impair the exploitation of those resources which do exist. At present, there is no valuation of municipal assets such as land, buildings, equipment, and natural resources. What is not valued cannot be stewarded or utilized to optimal advantage. It is possible to devise additional accounts which can record, at least, the value of these resources without requiring changes in other, routine accounting practices. The effort to undertake, record, and maintain such records and to provide regular reports on the value and status of assets will contribute to local decision making. The Ministry of Finance has initiated a process of conversion to double-entry accounting from the present system of single-entry budgetary accounting on a cash basis. This provides the opening needed to introduce cost accounting and other practices which will enhance municipal decision making and institutional development at this level.

Fundamentally, the issue of local resource management and its optimalization is one of human resource development and management. The current mismatch of human resources and municipal functions or tasks may be redressed through the effective application of training and the implementation of improved organizational structure and supervision.

Practical Issues and Constraints

There are a number of problems experienced by the three municipalities studied--Hamrya, Azrou, and Sefrou--which are not only common to these three but which appear to be systemic to the present system of local government in Morocco. These concerns include taxation, non-tax revenue generation, accounting and financial management, financial planning and forecasting, and capital budgeting as well as human resource management.

Taxation: As discussed, the central government sets tax rates and determines what taxes may (and must) be levied. Shared taxes collected by the municipalities contribute less to the central government than the amounts transferred to the municipalities. Local officials argue that the tax base is not inadequate but that collection problems result in insufficient revenues; and it is clear that this belief is shared by central government ministries. In order to maximize the contribution of tax revenues--both shared and local--to the government while minimizing the cost of collection, several actions are necessary. The Ministry of Finance would be well advised to assess, in sample municipalities, the adequacy of the tax base related to the production of revenues to meet central and state requirements. At present, there is no cost/benefit analysis of collection activities and no clear information as to the efficacy of available actions addressed at improved collection. For example, it may or may not be productive to employ more collection staff when comparing likely receipts to required expenditures for this activity.

A tax study might identify the rate of payment or of compliance with various taxes currently in place or compare the tax base with charges levied and collected. The rate of payment should be compared among all taxes to determine which are likely to improve with the smallest additional input. An analysis of collection costs in sample municipalities would be useful, as well, to reveal the marginal cost of collection and where additional collection personnel might have a net impact. Further, the concept of the rate and income elasticity of taxes might be applied to this analysis in order to ascertain the extent to which there is increased collection potential.

Non-tax Revenue Generation: There are serious constraints to the generation of revenues by municipal governments, as they are not permitted to profit from their activities. The removal of such constraints may permit the initiation of revenue-generating activities such as the profitable development of residential sites and markets. The introduction of user charges, development exactions, and other fee-based activities may also contribute to local financial self sufficiency.

Accounting and Financial Management: The current municipal accounting system is geared towards providing the central government with information on the operation of approved budgets. There is no method to budget or account for nontraditional resources generated by local government and no set of financial reports and statements that reveal managerial information beyond budget reporting. There is also inflexibility in the budget line items prescribed by MOI, which fail to permit the budgeting of items for which local resources could be made available. This system is proposed to change, with the adoption of a universal governmental nomenclature for all accounts, permitting the ready aggregation of financial data for purposes of reporting and analysis. Changes include the adoption of a double-entry accounting system. Municipal governments, beginning with the target municipalities, must be taught new methods of accounting as well as ways in which the new information produced should be reported and used for internal decision making.

Cash management and cost accounting are two areas of weakness in local government financial management. As discussed, the lack of cost accounting is likely to result in inadequate costing and pricing of governmental goods and services. Local governments do not maintain their own bank accounts but, instead, regularly remit revenues to the central government, retaining what cash is required to meet payroll and other short-term needs. Cash locked in the safe in the office of the municipal *regisseur* cannot earn interest for the municipality, cannot provide cash reserves to a bank for purposes of maximizing its lending, and cannot, therefore, contribute to local economic development. A municipality such as Hamrya, with a budget of 52 million DH, might be assumed to require 4 million DH (about $400,000) per month for operations. Potential interest income on cash on hand that could have been in the bank for two weeks prior to use may amount to 20,000 DH ($2,000) annually, or half of one percent of the total budget.

While the *regisseur* or tax collector is legally responsible for receipts for the municipality, many admit to the lack of sufficient internal controls and to problems of dishonesty, late payments, and contrived bids for purchase and construction under public contracts. Taxpayers as well as municipal employees should be protected by adequate systems of internal controls.

An accounting system which focuses on the recording of cash receipts and outlays and their relationship to budgeted revenues and expenditures is inadequate for the accurate reflection of municipal resources or own assets. While purchased assets are recorded at historical cost, there is no system to permit either their depreciation for purposes of cost accounting or the valuation of items owned outright by local governments, including land, buildings, forests, and other natural resources. The inadequacy of asset valuation and accounting makes it impossible for municipalities to assess and record the value of those items which would be treated as equity for purposes of loan applications to private sources of finance. The new accounting system would be most optimal if it addresses these issues comprehensively; and such a policy would be consistent with other directions of change such as the move to have FEC become a bank and the potential for municipal governments to gain access to bank services and finance.

Financial Planning and Forecasting: As mentioned above, the accuracy of local government projections for budget and revenue planning purposes is poor. To minimize variations, the MOI bases its approval of budgets on what is called the ìRule of 33,î which means that a municipality may submit a budget that reflects a weighted average of revenues over the prior 33 months. While the application of this rule may reduce the rate of expenditure growth, it also confines local processes of forecasting as well as revenue generation, as there is less incentive to increase resources if they cannot result in a concomitant increase in spending authority. An examination of the budgets and year-end statements of revenues and expenditures in the three pilot municipalities showed wide variations in the amounts of receipts projected versus those collected. In the aggregate, these differences cancel each other out somewhat; but it is clear that the ability to make accurate projections is weak and in need of improvement. In addition, the share of the budget available for capital expenditures often takes second place to that of operations, which are considered more essential. The result is that capital projects may be developed only incrementally, after the operating expenditures are covered. While TVA reallocation and access to FEC credit both reduce the need for self financing of capital items, there is, nonetheless, insufficient attention paid to the designation as well as delivery of resources needed to meet the demands of the capital budget.

Capital Budgeting: Little, if any, long-term planning is undertaken to define capital improvement needs for the years to come and to ensure the availability of the resources required. There is little understanding of the relationship between infrastructure and economic development and of the types of municipal investments that might stimulate business investment and employment generation. This is due both to the short-term nature of capital investment planning and to the lack of interaction between government and business at the local level. Choices made with regard to the capital side of the budget are in response to needs which are evident, are requested by influential citizens, or which are recommended by the *tutelle*. Objective and analytical criteria are not applied and are not commonly recognized for their potential value in this critical area of local decision making. This can result in poor choices between competing expenditures and a less-than-optimal use of scarce capital resources. This is the case not only with regard to new undertakings such as the construction of new markets or other public facilities, but only with respect to such replacement vs. reinvestment decisions and those concerning the maintenance of costly public works.

Similarly, there is no economic planning undertaken at the municipal level, despite a municipal code which delegates this function to local governments. This is another area in which the aspiration of the law exceeds the reality. Capital resources cannot be contributed to the development of economic plans which do not exist, jeopardizing the ability of scarce resources to result in economic impact and growth. Again, the lack of long-term planning impedes the development of capacity to identify gaps or deficiencies in infrastructure, facilities, and services needed for growth and the commitment to planning to meet resource requirements from local and external sources. At worst, it can result in the misallocation of resources and a reduction in the rate of economic growth and improvement in the quality of life.

Human Resources: One cannot blame the municipalities for the above deficiencies in light of the level of training and preparation available on the part of municipal employees. There is an inadequate effort by municipal governments and the ministries which oversee their activities to develop and strengthen capacity in the areas discussed. A senior Ministry of Finance official[6] noted that ìhundreds and hundredsî of local government officials will need to receive training in order to keep up with the pace of reforms proposed and to implement them at the local level. Human resource issues which must be addressed at the municipal level include the mismatch of personnel and tasks, low levels of motivation and resulting productivity due, in part, to poor human resource management; and the need for strengthened capabilities in such areas as financial management, capital budgeting, and related items discussed above. Inadequate information and data on which to base projections, analyses, and decisions must also be addressed.

Case Studies: Individual Issues

The population of the three pilot municipalities is shown on the following table.

Municipality	Total Population	Number of Households
Azrou	40,808	8,613
Hamrya	142,786	27,537

[6]Interview with M. Arroich, Ministry of Finance/Treasury Department, June 10, 1997.

Sefrou	54,163	11,128

1. Meknes/Hamrya

Municipal Capacity and Resources

Hamrya is one of four communes which make up the city of Meknes. Their existence as separate governmental entities is rooted in local history. Each commune or municipality has its own administrative infrastructure including a president and council, secretary general, tax collection staff, and other personnel.

The maintenance of the commune of Hamrya is addressed by several modes of management and their techniques and instruments utilized by commune officials. In terms of approaches to management, there are a number of problems with regard to the execution of the requirements of the 1976 budget law for local government, which requires the maintenance of equilibrium between revenues and expenditures.[7] These problems relate to forecasting as well as execution of the communeís budget and other financial responsibilities. These management issues may be summarized as follows.

First, the absence of a long-term vision results in the failure to concretize the process of planning for the development of the commune.

Second, there is no coherence or integration of the plans and actions initiated by the commune; nor is there an effort to assess or to understand the social or cultural impacts of capital expenditures. The result is projects which are undertaken in isolation in response to a particular need as the need is defined. For example, if a neighborhood needs a water connection, their pressure or sharing of information about the critical nature of this need may result in provision of the connection by the municipality. In the long term, there is no comprehensive approach to addressing broader problems such as unemployment or, perhaps, the need for widespread renovation of a water system and greater coverage of water service to the growing urban population.

Third, financial planning to implement program authorizations is limited by the time and other limits of programs determined in response to particular problems as they are projected. In other words, resource allocations are made to address narrowly-defined problems of limited dimensions; and the definition of these problems (and the resulting response) is often made on the basis of insufficient information as well as political influence.

While the council members play an important role in the identification of projects, with office chiefs assisting in the collection of information and in project identification, as well, the decisions which govern the allocation of resources to particular projects are fundamentally political in

[7]Dahir of 30 September 1976. A *dahir* is a proclamation by the King, which has the effect of law.

nature. Such decisions submit to the pressures of a less-than-professional organization. The circulation of information between the municipal periphery and its center is facilitated by the rule of the municipal president.

Personnel and Management

The evaluation of management capacity can be approached, among other methods, through means of comparison between the projections and realizations of the operating budget. With regard to receipts, it seems that the municipality of Hamrya is relatively subsistent on the projections of certain taxes in its preparation of an annual fiscal plan, notably urban taxes, business taxes, taxes on drinks, and licenses. Its financial capacity is constrained by the poor rate of collection and the accumulation of arrears by taxpayers as well as by the changes in the system of tax imposition, particularly on beverages.

In parallel, expenses are above all for operations. Many problems arise from the fact that any augmentation in expenses is likely to result in a deficit position for the municipality, with this deficit arising solely from the operational side of the budget and resulting in a lack of resources for the completion of existing projects or for the initiation of new ones. In 1995, for example, the deficit on the operating side of the budget alone was assessed at six million dirhams ($653,595). The TVA revenue is not permitted to accrue to the deficit, making it difficult, if not impossible, to designate any surplus for the ìequipmentî or capital side of the budget.

The municipalityís own resources, by design, are relatively weak. The most important problem in fiscal capacity development in Hamrya is known to relate to the management or imposition of various taxes and charges instituted by the Dahir of 1989. In effect, this reform was not accompanied by an organization of financial services and taxation. A financial division exists only in an embryonic state and has failed to date to accomplish its mission. The office of the Regie or revenue collector is concerned with collection of all local taxes. It is the *percepteur* who must take charge of executing all local expenses and whose reports affect the municipality. He must look after the recovery of resources; moreover, the *percepteur* assigns less concern to the imposition of taxes.

Project Development and Implementation

Despite all the problems discussed, the municipality never stops its efforts to restrain its operating costs in order to make up the deficit and to undertake investment projects. In this regard, local officials endeavor to reduce the operating charges such as telephone expenses, vehicle repairs, and office furniture. By the same token, officials try to utilize existing personnel for the completion of all tasks and have devised a training plan to make them more effective. Managers recognize that the tasks which they need staff to perform are often not those which are well-suited to existing staff skills, with the result that the use existing staff for the completion of needed functions for which they are not prepared leads to a mismatch of human resources and community demands.

A certain number of capital projects are undertaken with the competitive financing of FEC.

Three projects involving the construction of municipal markets comprise 500 shops and four cafes in the initial execution stages. The lack of revenue generation is omnipresent in the choice of approaches to the execution of projects within the municipality. Officials must choose those projects which result in the production of fees directly by beneficiaries upon the establishment of the project. As the municipal government develops a shopping complex, it exacts an establishment charge from each prospective shopkeeper or cafe operator. In this case, payments average about 30,000 DH ($3,268) for a shop and 100,000 DH ($10,890) for a cafe depending on location. An additional project related to the improvement of roads within the municipality is planned for finance by FEC in the amount of 10 million DH ($1.09 m) over a period of five years (1996-2001).

Elsewhere in Hamrya, a zone of commercial activity is projected in partnership with the Ministry of Commerce and Industry and is expected to require in the range of 8 million DH ($871,450) in funds from a special account. The landowners will divide it into two parcels, the first reserved for young business promoters or developers and in which the construction will be financed exclusively by the Ministry of Commerce and Industry. The second parcel will revert to the municipality for division into commercial lots at a price of an estimated 1000 DH per square meter ($109 or about $10 per square foot).

These entrepreneurial initiatives being undertaken by the municipality are being realized through the subdivision and preparation of municipal lands and their commercialization. Such initiatives achieve dual objectives of engaging the government in its own communityís development process and of procuring revenues for its future development. These also provide Hamrya with an alternative to FEC borrowing and the limitations that FEC poses, particularly important in light of this municipalityís inability to finance its own development out of earnings and surplus.

Financial Management

Hamrya typically has a deficit of 5 million DH ($544,660) in its operating budget, with an additional 11 to 14 million DH ($1.2 m to $1.5 m) deficit on the capital side. The tax base is not the problem; collection is. One option is to change the tax base; another is to emphasize collections. There is a problem of high-ranking people not paying taxes due without a concomitant strategy for addressing this problem.

58.7% of expenses in the local budget are for personnel. During 1995, 55.2% of the budget was expended on personnel, leaving the difference to be reprogrammed during the following year. 13.7% of Hamryaís budget for 1995 was canceled due to poor planning or to the lack of need for budgeted expenditures. While comparable information is unavailable for other municipalities, it would seem that this is a high percentage which indicates the need for improved financial planning.

A tax recovery issue in Hamrya involves the Percepteur, who argues that state is important, so the state gets paid for its outstanding charges before the municipality is able to collect its share.

Hamryaís budget projections reflect a poor capacity to forecast revenues as well as to collect revenues. The rate of collection of shared taxes is just 68.37%; while the rate of recovery of local taxes is much higher. Overall, Hamrya expects to recover 69% of all taxes; but a status report for September 20, 1996 indicates that the tax collection office had fallen 2% short of this goal. While Hamrya has not been able to operate in a surplus (or non-deficit) position in the past, it has had to cut its 1997/98 budget in order to meet new Ministry of Interior prescriptions regarding budget balance and the lack of subsidies. Over 10 million dirhams are cut relative to the 1996/97 budget, reflecting a reduction of over 16%. Hamrya proposes not to reach its 1996/97 level of expenditures again before the end of the century. The balanced budget presented for fiscal year 1997/98, beginning July 1, indicates revenues and expenditures of 52,234,600 DH. Plans and projections also include the establishment of a municipal impoundment and storage facility.

Technical Assistance Needs

A number of issues have been addressed in Hamrya which require technical assistance directed at their improvement. These include the following.

> Problem of accurate forecasting of receipts--even from revenue-generating activities.
>
> Regarding projects: Problem of valuation of non-revenue projects such as roads as well as a lack of project evaluation. Most projects are selected for political reasons; and there is some question as to whether priority is based on needs or means as well as political impact. Council votes four times per year on new projects or capital outlays; and any reasonable project is implemented as resources permit.
>
> Valuation and management of the patrimony of the commune or its own assets.

Local commissions operate to explore and address issues of concern such as budget, social, administration, culture and sport, government relations, external relations. These might be assisted to become more active forces for change in areas such as financial restructuring and reform and the identification and development of capital projects.

Partnership potential exists with the private sector, as Hamrya is part of a growing city with established commercial activity.

Human resource development has also been shown to be among local interests. Some training has been obtained by the municipality, which spent 1 m DH on 40 seminars. Needs include staff training and development, systems to measure productivity; the current mismatch of training and work assignments and resulting motivation .

2. Azrou

Municipal Capacity and Resources

Among numerous local municipalities, Azrou does not have at its disposal a plan for economic and social development nor a financial plan for the authorization of program resources. The municipal council concerns itself with problems of an urgent or immediate nature with regard to information and programming of projects, depending on the availability of credit or surplus receipts for their financing. More specifically, each time additional credit becomes available to Azrou, local officials quickly assign it to the next tranche of some project still in process of execution and development. This is to say that each and every project is subjected to a progressive process of development which is determined by the availability of resources. When the means accessible turn out to be insufficient, small increments of additional funds or the reprogramming of unutilized pieces of resources from other projects are assigned, as needed, in the slow process of project completion.

With regard to evaluation, the projections made since 1996 are based first on the resources belonging to the municipality itself, including TVA. The part of the TVA consists of a subsidy whose part affects the operating budget surplus, which represents 3% of the budget. This amount can then be allocated to capital investment outlays, leading to budget equilibrium in this municipality that has never experienced a budget deficit.

Under their planning procedures, technical services evaluate projects and prepare a study, which is sent to the oversight authority for approval. Then the project can be executed. The Ministry provides technical assistance to the municipality in the preparation of its projects, and may provide some revenues upon evaluation of whether this influx is needed for project expenditures or for the payment of credits obtained from FEC.

If projections made for operating and capital budgets show insufficient financial resources, then another technique is to engage a ministerial department, such as health or public works, or FEC, which may provide resources or unclog the blockage of resources. This results in a double role for the *percepteur*, who becomes involved as both contributer of the commitment of expenses and as accountant. A consequence of this involvement of the *percepteur* is his potential failure to reconcile these roles as both financial regulator and accountant. If the *percepteur* changes, this can present hardship to the municipality, as its planning process is founded largely on the stability of a cooperative relationship with a *percepteur* who will approve the municipal budget. When the budget is not approved, the municipal manager must obtain some local revenues within established limits. Specifically, he is permitted to recover one-twelfth of the previous yearís revenues in order to pay personnel. With regard to investment expenditures, he is permitted to execute a purchase order for items not exceeding one million DH in value, as long as these outlays do not exceed the prior yearís investment budget. In the execution of the purchase order, the municipal manager is not allowed to pay more than one-twelfth of the cost, as he is restrained from expending more than one-twelfth of the prior yearís capital budget as well.

Personnel and Management

Relative to Sefrou and Hamrya, Azrou has very decentralized decision making, with a number of individuals charged with significant authority over their actions in the municipal hierarchy. A factor which impairs the potentially positive aspects of this structure is the very poor level of internal communication. Even the secretary general is left with little authority and without a system of information and accountability which would ensure his effective role of manager of local human and financial resources.

Much decision making rests with the president and council, with the result that the secretary general has become marginalized in his ability to exert influence and authority. The president and council members are known to direct the actions of personnel and to request their attention to addressing the needs determined by elected officials. Only twelve of the 355 municipal employees are senior-level managers with specializations in such fields as engineering, finance, or public health. This lack of well-trained managers exacerbates the problem of management by elected officials and contributes to a tendency towards centralization of the municipal government. For example, FEC loans were negotiated directly with the president.

A particular problem merits attention that is specific to the municipality of Azrou. This is the negative impact on municipal management of the relations which exist between the President, his assistants, and permanent employees of the municipality and the police on the other side. It appears that the office members tried to take advantage of certain agents. As a result, among the participating employees, there has developed an attitude of suspicion towards and distancing from the chiefs or directors of departments. They ally themselves with the nongraduates who are not in decision-making positions.

Communication and the circulation of information is poor. There is insufficient information about the taxpayer base from whom revenues could be collected, particularly residents in new areas which have not yet been documented with house numbers. It is estimated that a revised census of the local population and assessment of related properties has been overdue for the past three years. Practically, the actual documentation and evaluation of taxpayers and assessment of their liability has not been completed over the past six years. Many, particularly elected officials who do not want to be seen as responsible for new taxes, prefer the status quo and do not seek the census updates which are likely to result in additional charges to taxpayers, but additional revenues to the local government.

Project Development and Implementation

An effort has been maintained by the municipal staff in view of promoting development of the municipality of Azrou through partnership agreements with several parties. These include the Ministry of Public Works, which has permitted construction of roads in the amount of 2 billion DH (about $218 million), a bridge valued at about 400 million DH ($43.6 million) of TVA funds combined with 1.6 million DH ($174,290) of funds from the Ministry of Public Works.

The Ministry of Public Health provided for the construction of a clinic.

A number of other infrastructure projects were undertaken or programmed during the period between 1992 and 1996. Notable projects include the following list.

> Purchase of municipal equipment in the amount of 2,660,000 DH (about $290,000) financed by FEC
>
> Renovation of the public lighting network in the amount of 2,219,000 DH ($241,720)
>
> Creation of public gardens at a cost of 500,000 DH ($54,466)
>
> Road paving for a total of 1,806,000 ($196,730)
>
> Town reconstruction and renovation with 11 million DH ($1.2 million) from ANHI
>
> Construction of a primary school, using 1,460,000 DH ($159,000) transferred from the Ministry of the Interior
>
> District construction in the amount of 800,000 DH ($87,145)
>
> Completion of roads valued at 6 million DH ($653,595)
>
> Equipment of the national road with 1.05 million DH ($114,380) from the Ministry of Public Works
>
> Construction of shops in the souk for 742,000 DH ($80,828)

An additional set of projects is in the process of development as follows:

> Renovation of the public lighting network (760,000 DH or $82,790)

Improvement of solid waste (800,000 DH or $87,150)

Equipment of a track for public waste drainage of 2.5 km (400,000 DH or $43,570)

Construction of a fence for the public landfill (200,000 DH or $21,750)

Equipment and extension of an emergency block at the hospital (5 million DH or $544,660)

Construction of a post office (1.4 million DH or $152,500)

Construction of a college (4.4 million DH or $479,300)

Equipment for sports grounds (1 million DH or $108,932)

Equipment for a municipal swimming pool (500,000 DH or $544,660)

Financial Management

Azrou proposes a budget of 17,289,200 DH for 1997/98. As for financial means, current problems include the weakness of resources and tax collection, including the urban tax and business tax. A reason for their low level of contribution to municipal resources is the absence of a recent census of taxpayers or verification of their status and assessment of their tax liability. Many taxes are seen as too high and are, as a result, not paid. It appears likely that there is justification for some downward adjustments of taxes levied along with a revision of unfairly low rates among those whose recent improvements to homes and businesses have never been assessed.

With respect to taxes, the rate of recovery is low, with the rate of attainment averaging about 50% of revenues levied. Notably, there has been delay in the role played by the Ministry of Finance. Tax collections remain weak, while costs of collection rise with inflation.

With regard to receipts from municipal sources of revenue, these also remain weak. For example, the self-employed are paying an estimated 12% of what has been charged. While the rents charged have not risen in actuality for some time, the cost of municipal markets and their operation, along with the cost of tax recovery activities has risen, and rates need to be revised correspondingly. There is not enough personnel in the tax collection office to collect what is due.

TVA and the security of the budget and the new system of redistribution to municipal governments has not produced change nor the amount reallocated that was expected in comparison with the system in place prior to the 1996 change.

3. Sefrou

Municipal Capacity and Resources

Sefrou also lacks a plan for economic development. Its financial management is program related, with projects put into place and integrated into a long term view that responds to local problems. The President has a vision of what activities are necessary for local development and sees that files on new projects needed are prepared and maintained pending the availability of resources to finance them. This vision has resulted in Sefrou having many facilities not found in other places of similar small size, such as a library and a conservatory of music and dance. Its infrastructure and other projects are attributable to the active role played by elected officials in the management of local affairs. Some argue[8] that the extent to which the President and his adjoints have been active in Sefrou has risked marginalizing the department chiefs. It also raises the issue of the management capacity and skill of elected officials.

Personnel and Management

The structure of decision making in Sefrou is organized around the five adjoints or assistants to the President, each of whom has his own area of responsibility in terms of overseeing municipal activities. These include health, public works, accounting, and others. There are also nine commissions, which exceeds the number usually found in small municipalities. These maintain pressure for the maintenance of municipal services, with commissions for economic and social development, finance, public works, culture, personnel, and administrative issues including price setting, health, traffic, and road construction and bid evaluation.

Evaluation of provisional receipts of revenues and of expenses obeys established norms; and the projections made by the municipality do not result in the revenues expected. The receipts are weak due to a low rate of recovery in comparison with charges levied at the local level. There is an accumulation of arrears, with a number of individuals failing to pay certain taxes for as long a period as twenty years without cancellation.

A number of problems arise in the execution of tax policies in Sefrou. Certain receipts projected are unlikely to be collected and must be identified as uncollectable in the local accounting system. Certain expenses appear different from projections, for example, with regard to the collection of charges for sewerage.

The budgetary classification does not permit the entry of various categories of expenses which do not exist in the prescribed lines of the budget. The section of unexpected expenses does not permit expenditures to meet urgent needs because the amount requested exceeds the highest level permitted by the authority of the oversight office of the Ministry of the Interior.

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[8]Study by Urba-Systemes, Rabat, Reorganisation des Structures Municipales et Informatisation: Municipalite de Sefrou, June 1996.

Project Development and Implementation

As mentioned above, Sefrou undertakes more planning than some municipalities in the identification and development of projects; however, it still lacks real capital budgeting skills and their application. Analysis is weak with respect to projects identified. Most relate to the President and councilís vision of what is needed in the municipality, with much of this determination related to quality of life issues (resulting, for example, in the construction of a library and a conservatory) than due to objective assessment of infrastructure deficiencies or the creation of facilities to stimulate business operations and economic development. To its credit, Sefrou maintains a set of *fiches* or files of projects identified and desired by, at least, its elected officials. This serves as a sort of bank of projects which can be shaped and even estimated in terms of cost, land use, and other factors while awaiting the availability of credit to finance them.

Financial Management

The financial resources of the municipality of Sefrou remain insufficient despite its attempts to realize the surplus permitted from programs of capital development. In terms of fiscal management, an effort was made in this municipality to reassess the contributions made by its inhabitants and to evaluate the capacity to pay on the part of residents of peripheral settlements, whose numbers would contribute significantly to the number of residents in Sefrou. This would likely yield significant increases in the urban tax and on taxes imposed for undeveloped land.

With regard to nonresidential land, Sefrou has identified industrial areas and regularized these, contributing thirty industrial units to the tax rolls, including two which make goods for export. The effort of improving or mobilizing additional resources has been reduced on the part of municipal employees, with a resulting cut in the rate at which new resources are being created.

One reason for this action is the relative increase in municipal resources resulting from the reallocation of TVA to the municipal government. It appears that the government or its employees believe that the increase in TVA resources means that the effort to obtain other revenues from local taxes is less necessary than it had been. New TVA criteria have had no positive impact on the budget of Sefrou. Instead, the amount of receipts from TVA is the same now as it was prior to the TVA reform.

Operating expenses weigh heavily on the local budget, notably expenses for personnel. The weakness of recent recruitment efforts has had an effect. It has been practically five years since the municipality recruited its latest thirty employees. The total annual budget is about 23 million DH or about 380 DH per resident. 82% of the budget is allocated to operations, leaving 18% for equipment and capital items.

Other operating expenses are also important, including administrative equipment, personnel, materials, vehicle maintenance, and debt service. Sefrou has implemented a strategy of expenditure reduction to head off potential impact on the budget and their ability to sustain an operating surplus. Among the actions taken is the reduction of water expenditures by cutting the flow to public fountains, and a decrease in public lighting and the resulting outlays to RADEF (the Regie Autonome de Distribution díEau et díElectricite de Fes), the regional water and electric authority.

With regard to revenues, the TVA and business taxes generate 48% of all receipts. Other major revenue sources are local taxes (16%), revenue from goods and services (10%) and loans (13%). Of the 18.8 million DH spent on operations, 48% is for personnel, with 31% for materials and services and 11% for debt service.

Within the 4.2 million DH available for capital expenditures, 3 million DH goes to new projects and major repairs.

The municipality has constructed its own administrative building; however, it has reduced significantly such nonessential expenses as the provision of a car at the disposition of the President and a variety of administrative formalities. Among these are the reduction of papers needed to process for construction permits, which now stands at six instead of the earlier twelve. No doubt, additional costs in time and services have been saved as well as paper through the adoption of this measure.

While Sefrouís financial management is said to be ìtraditionalî and ìunderequippedî by a recent management study,[9] it is interesting to note that Sefrou appears to note the importance of its finance section and calls its *Regie* or local tax collection office the ìdivision of financial resource development.î This may be just a name; however, the emphasis on this divisionís importance is consistent with this reportís recommendation that municipal governments devise a financial services division. This division, in Sefrou, employs 24 people of the total 327 personnel in both tax collection and the determination of the tax base. Tax collection is very decentralized within the municipality, indicating a level of individual responsibility that may be strengthened through training and technical assistance efforts.

Overall, human resource development is weak, with just 13 senior administrative staff and 65% of municipal workers engaged in basic service provision.

The budget proposed for the fiscal year beginning July 1, 1997 is as follows:
Receipts:

200,000	Urban Tax
4,500,000	Sanitation Tax
5,000	Sanitation tax on undeveloped properties
225,000	Taxes on undeveloped land
87,300	Tax on insurance contracts

5,017,300	Subtotal

[9]Ibid.

619,500	Local taxes
1,940,100	Proceeds from services
800,000	Construction of roads
3,317,100	Product sales
95,000	Interest
1,375,500	Products and sales of municipal property
158,000	Receipts from services (library, conservatory, etc.)
310,000	Temporary employment tax
1,230,000	Transport and other licenses
30,000	Diverse services
104,000	Unspecified products
20,516,500	Share of business taxes and TVA

32,462,500	TOTAL

Expenses:

243,400	Council expenses
15,834,000	Personnel
483,000	Functionary expenses
78,000	Material for functioning of services
395,000	Office materials
570,000	Reception & fetes
1,263,000	Utilization expenses (communication, etc.)
1,540,000	Vehicle operation
1,440,000	Water & electricity
1,150,000	Roads/public works
375,000	Maintenance of water/electric network
120,000	Trees & gardens
185,000	Abattoirs and cleaning
180,000	Public health
2,455,000	Cemetery and burial
525,000	Maintenance of fisheries, equipment, theaters & halls
274,000	Charges re community goods
528,100	Rents & local charges
300,000	Heat & electricity
45,000	Assistance
9,350,100	SUBTOTAL
60,000	Varied subsidies
255,000	Diverse/other
6,057,000	Debt amortization
32,462,500	TOTAL

4. Comparative information on pilot municipalities

The following ratios are kept on urban and rural areas by category:[10]

<u>Size of budget</u>

1. Total receipts per capita

2. Total expenditures per capita

[10]Ministry of the Interior, <u>Guide des Ratios Financiers 1989: Communes Urbaines</u>.

Budgetary allocations
3. Budget allocations per capita

4. Allocations for operational expenditures per capita

5. Allocations for capital budget per capita

Resource base
6. Financial autonomy (own receipts divided by operating expenses, expressed as %)

7. Fiscal resources (fiscal receipts divided by operating receipts)

8. Fiscal receipts per capita

Services rendered
9. Service rendered per resident (operating expenses minus debt service minus required expenses divided by population)

10. Share of personnel in operating expenses (personnel expenses divided by operating expenses, expressed as %)

11. Personnel costs per capita

Indebtedness
12. Debt service share of operating expenses (debt service divided by operating expenses, as %)

13. Rate of indebtedness (debt service reported to current receipts including TVA)[11]

Capital investment
14. Investment per capita

15. Share of loan for capital finance (loan divided by capital expenditures, expressed as %)

Results
16. Gross rate of savings (surplus divided by operating receipts, expressed as %)

17. Rate of own savings (own savings divided by own receipts, expressed as %)
18. Rate of forced savings (forced savings divided by operating allocation, expressed as %)
Note: These two ratios are no longer utilized following reform; rather, the rate of total savings remains pertinent.

[11] This is especially useful under the new TVA distribution system.

19. Share of unexpended capital investment credit. This ratio is worthwhile with reference to operations where there is a cancellation of funds for capital outlays; however, in light of reform, it is not useful.

On average for all urban municipalities, their own resources provide 34.63% of total resources. Allocations from other levels of government make up 17.37% of revenues available. Loans total 11.7%, with other credits of 27.71% raising the total level of borrowing to 39.1%--very near the limit of 40% imposed by the Ministry of the Interior. Other receipts make up the 8.39% remainder. With respect to total allocations, 53% of resources are required for operating expenditures, with 47% available for capital expenditure.

Not surprisingly, a breakdown of these statistics by size of municipality reveals that the smallest--those with populations of less of 15,000--spend 94% of their budget on operations, leaving a paltry 6% for capital expenditures. These same small governments require over half (57.4%) of their resources from central government allocations. While the smallest governments are those with the smallest share of funds allocated to capital expenditure, the pattern does not progress evenly, as the largest cities do not invariably spend more on capital expenditures than their middle-sized counterparts.

These ratios have been computed for the three pilot municipalities of Sefrou, Meknes (Hamrya) and Azrou as presented on the following table.

Ratio Number	Sefrou	Meknes	Azrou
1	368.89	377.97	334.00
2	250.11	292.32	246.35
3	143.86	69.37	86.90
4	123.13	19.44	50.91
5	20.73	49.92	35.99
6	57.20%	92.74%	85.14%
7	33.52%	55.63%	47.99%
8	83.17	100.47	83.54
9	195.33	149.93	134.20
10	57.64%	50.05%	49.87%
11	125.92	86.97	72.15
12	10.59%	13.72%	7.24%
13	18.52%	14.8%	8.51%
14	31.64[12]	118.54	101.68

[12]This is the lowest ratio reported for all urban municipalities in the country.

15	16.86%	66.58%	43.94%
16	11.94%	3.78%	16.9%
17	0%	0%	0%
18	24.05%	35.08%	57.78%
19	79.10%	41.95%	46.29%

F. Action Plan for Urban and Environmental Services Project: Local Government Activities

A number of issues have been identified as components for the focus of this report and subsequent workplan activities. Each major area of concern is identified as follows, with summary recommendations concerning the manner in which the matter may be addressed, the technical assistance and training requirements to do so, expected obstacles to the achievement of specified activities and objectives, and a preliminary identification of the impact expected from each activity. It is expected that the activities proposed will focus on the three municipalities selected; however, the results are likely to have broader and more long-term consequences.

Issue #1: Inadequate Budget Preparation and Revenue Generation

Actions Proposed:

Technical assistance and training in financial forecasting relative to the projections of both revenue and expenditure sides of the budget
Assessment of collection capacity with regard to taxes levied
Technical assistance on improved revenue collection strategies
Assessment of costs of collection of taxes and revenues with poor collection records
Identification of non-tax sources of revenue
Technical assistance directed at the generation of non-tax revenue sources
Identification and development of profitable activities
Training for elected officials on key elements of budget/performance budgeting/fiscal capacity

Obstacles:

Current rigid budget guidelines which fail to permit budgeting of all requirements
Lack of computerization and good data bases of information
Constraints on profit-making activities by municipal governments
Poor linkages with the private sector
Lack of valuation of municipal assets or *patrimoine*
Regulations regarding certain tax distributions such as *patentes*

Expected Results:

Increased accuracy in budget forecasting and preparation
Improved collection of several key local taxes
Market pricing of municipal services and products
Generation of non-tax revenues from municipal activities

Issue #2: Inadequate Accounting Systems for Sound Financial Management

Actions Proposed:

Review of forthcoming changes in accounting standards and procedures from Ministry of Finance
Training on implementation of new procedures and system
Computerization of accounting system
Valuation and recording of major fixed assets and municipal *patrimoine*
Technical assistance on development of internal reports needed to inform managers and elected officials
Technical assistance on monitoring of receipts and expenditures
Training in decision making linked to municipal accounting reports
Technical assistance and training on cost accounting and indirect costs

Obstacles:

New accounting system and procedures not yet available
Lack of fixed asset and valuation policies and guidance
Local staff and officials unaccustomed to transparency and to decision making based on local accounting records
Nonexistent indirect cost policies and attribution in current system

Expected Results:

Improved transparency and accountability of pilot municipalities
Effective management decisions by staff and elected officials regarding financial resources
True cost-recovery pricing for municipal products and services
Increased revenues resulting from comprehensive market pricing
Objective decision making leading to more efficient resource allocation
Minimization of ineffective expenditures
Maximization of new revenues generated

Issue #3: Weak System of Information, Analysis, and Capital Budgeting

Actions Proposed:

Technical assistance on creation of data base and training in its utilization

Assistance in the development of channels of information among elected officials, management staff, functional staff, and the public

Training and technical assistance on the adoption and use of analytical techniques for capital budgeting and assessment

Development of performance indicators for municipal government

Introduction of performance budgeting and training/technical assistance in its application

Creation of project development commission with representatives of elected officials, municipal personnel, the private sector, and established business/community organizations

Identification of privatization and public/private partnership opportunities

Training and technical assistance regarding the creation of vision of municipal development and its acceptance by elected officials, municipal personnel, and citizens

Identification, development and sharing of best practices

Formation of core associations for the dissemination of ideas and practices

Obstacles:

Lack of locally-generated data and computerization

Weak traditions regarding public participation and weak government/business relations

Inadequate education and training of staff and officials in analytical techniques

Current budget requirements and limitations

Short-term resource planning and access which inhibits long-term planning

Ad hoc and political approach to project identification

*Tutelle*system and top-down flows of information and decisions

Expected Results:

Measurable outputs or benefits (in excess of costs) from outlays of *equipement* budget

Identification and development of viable and profitable projects

Acceptance, financing, and implementation of projects which maximize local economic development

Optimization of budget resources

A new collaboration between municipal government and the private sector leading to the dynamization of local government, more efficient service production and delivery, and long-term economic growth

Development of projects and use of resources in a manner consistent with comprehensive plan

Access to information on improved local practices through sustainable interaction with counterparts in other local governments

Proposals for more cooperative relationships with external services and Ministries/*tutelle* and for flow of information and ideas both up and down through government channels

Issue #4: Poor Human Resources and Human Resource Management

Actions Proposed:

Development and adoption of model organigram for municipal governments

Training and technical assistance of key managers and elected officials regarding decision making, execution and monitoring of decisions and activities, information flows, management of staff, and involvement of public/volunteer resources and ideas

Preparation of job descriptions for elected officials and key personnel, including definition of a financial services division at the municipal level

Technical assistance and training to proposed planning commission in its identification and development of projects

Privatization or increased private sector roles in selected projects

Obstacles:

Low quality of education and training among many municipal personnel

Mismatch of personnel to tasks assigned

Historical relationships between elected officials and personnel do not emphasize cooperation

Lack of models of privatization and private sector involvement

Expected Results:

Increased productivity of human resources

Identification and development of projects which model best possible practices regarding efficient resource utilization, decision making, rapid implementation, on-time and on-budget execution, and privatization or private sector participation

Professionalization of secretary general/effective role as urban manager

Continued access to information and practices of other local governments

Improved relationship with and contribution by the private sector to local development

G. Summary of Recommendations

The above plan may appear ambitious and aggressive to those who have not investigated this sector; however, it is essential to achieve long-term goals of genuine decentralization along with municipal financial sustainability. It is also critical to the establishment of linkages with key central government ministries that can result in the assistance they need *from the municipalities* to meet national economic development objectives and to craft the new relationships needed *by municipalities* to meet, in turn, their own economic and financial goals.

Certain components of the action plan are essential. These include the need for training for elected officials to familiarize them with their responsibilities, particularly financial responsibilities, and with the financial situation, weaknesses, and opportunities which characterize their municipalities. Also critical is the need to provide intensive technical assistance related to the improved collection of taxes, the preparation of accurate and more useful budgets, and better techniques for financial projections. Without an understanding and acceptance of the changes required and the development of a vision of the role of municipal government in local development, elected officials and municipal personnel will not seek to implement changes in their practices. The formulation of this vision becomes a critical step, as motivation will not develop without a context for reform and innovative activities. Therefore, this action plan proposes to begin with a retreat for local elected officials and their principal finance personnel from the three pilot municipalities. Similar sessions should, ideally, be held with Ministry officials from Interior and Finance who have responsibilities related to local government finance and management.

A complementary set of activities is proposed to provide all participants in planned training and technical assistance activities with background on useful practices found elsewhere in Morocco. It is suggested that Moroccan consultants be engaged in the preparation of brief and instructive case studies which evaluate local experiences that may be worth emulating--or which may offer lessons learned from the mistakes made in other communities.

What follows is an overall framework for grouping the activities deemed necessary by the consultant team. Specific activities, such as training and technical assistance, will be formulated to address the points outlined and to resolve issues identified. Some of these activities require the gathering and analysis or comparison of data and information which, as mentioned, will provide a basis for future activity design.

Approach to Capacity Building Among Local Collectivities/Municipalities

1. Analysis of Managerial Capacity

a. Gap between projections and actuality
   - Factors for this difference:
     - Technical
     - Economic
     - Financial

b. Failure of financial and economic analysis
   - Financial analysis
   - Project identification and their analysis
   - Gap between physical growth (urbanization, industrialization, etc.) and financial growth

c. Weight of existing control
   - Preapproval by Ministry of Interior
   - Control of commitments and expenditures by *receuver*

d. Insufficient management capacity
   - Human resources and development
   - Technical capacity: statistics, information, and mechanization
   - Accounting system

2. Analysis of Financial Capacity

a. Fiscal capacity
   - Problem of reassessment

Problem of realization of projections and forecasts
Problem of recovery of taxes and charges
New TVA system

b. Indebtedness capacity
   Debt to ordinary revenues
   Debt per capita

c. Investment capacity
   Investment outlays per capita
   Surplus/revenue for investment
   New TVA system and its contribution

d. Importance of operating budget
   Personnel expenditures
   Expenditures for materials and furnishings

Improvement of Management Capacity

1. Conditions for Improvement of Financial Management

a. Administrative conditions
   Organization of financial services division
   Reshaping of relations between municipality and state and between municipality and local partners
b. Human resource conditions
c. Financial conditions
   Improvement of fiscal management (tax base and recovery)
   Development of own resources
   Liberalization of borrowing conditions (FEC and others)

2. Modalities for Improvement

a. Development of relations between budgetary programming and economic planning
   Relation to national, regional, and local plans
   Impact of new TVA system
b. Progressive introduction of modern instruments of management
   Financial analysis
   Statistical base and analysis
   Mechanization/computerization
   Collection and use of information
c. Reform of accounting system
   Evaluation of equity/local assets
   Evaluation of costs
d. Substitution of ìassistanceî for the current *tutelle*

3. Action Program

a. Training of staff in areas of budget and finance
b. Organizational and staff development for finance and accounting
c. Concrete measures of budget optimization
d. Development of a local entrepreneurial spirit
e. Development of partnerships with the private sector
f. Municipal pilot activities
    statistical data base
    information network

Proposed Research Topics

The following are indications of progressive practices among Moroccan municipalities which may merit investigation and the preparation of brief case studies by local consultants. These cases would be expected to demonstrate that innovations are possible in the current environment and that steps can be taken to initiate changes in economic development, local revenue generation, privatization, and other new practices. No study has been made by TSS/Maroc of any of these situations. Therefore, it is advised that preliminary contact be made through local councils or other established avenues in order to ascertain whether the example merits exploration.

Role of private sector/municipality as developer: Look at Bourchid Settat near Casablanca re industrial zone development in El Yadida
Same experience regarding creation of syndicate

Privatization of municipal services: Solid waste experience in Ainsebaa/links with Lyonnaise des Eauxís sewerage venture

Role of NGOs and community-based organizations: Village of Ait Iktel and its community Association

Explore potential for municipalities in:

1. Financial forecasting and budgeting
2. Capital budgeting and project selection
3. Creation of process for community participation
4. Strategic financial planning linked to economic development
5. Opportunities for privatization/expanded private sector roles
6. Staff development and training leading to professionalization of key positions
7. Municipality as commercial developer or beneficiary of project profits
8. Municipal resource mobilization
    a) improvements re access to *tax urbaine* and *patentes* (business tax)/ determination of base, assessment, and greater access
    b) introduction of user charges

c) ability to generate surplus from development activities and exploitation of own resources
d) partnerships with private sector
e) assessment of the efficacy of collection of local taxes vs. alternate resource mobilization strategies

A new relationship between local, provincial, and national governments in the planning and achievement of economic development objectives: Shift from passive outside management to active inside management.

Privatization and public/private partnerships to achieve local economic development objectives.

Community participation and increased roles for nongovernmental organizations.

Introduction of new technology, including computers for accounting/budgeting/financial planning and project analysis and of private sector bringing in new approaches.

Concluding Remarks

Plans for future work under the Urban and Environmental Services Project must engage relevant individuals and divisions from both the Ministry of the Interior and the Ministry of Finance if their impact is to optimal. It is recommended that both participate in training provided to the pilot municipalities in order to learn about the concerns they face and their needs for training. This would permit central government officials to understand the assistance needed by the municipalities and the kinds of collaboration that might be of greater benefit to local governments than present *tutelle* relationships.

The reforms and initiatives already proposed by these ministries for changes in local government practices may be introduced in the three pilot municipalities in cooperation with Ministry officials. This would enable them to understand the pace and complexity of changes to be introduced and the difficulties encountered by municipal governments in the process of adjustment. It is likely that such interaction would lead to an increased level of cooperation and communication between local governments and key Ministry officials and divisions.

While there is a pervasive lack of vision among municipal leaders, there is also the lack of a grand vision of municipal government at the Ministry of the Interior and the Ministry of Finance. Their focus is on the maintenance of order, the minimization of errors and abuse, and the control of limited resources. A change in perspective towards one emphasizing the economic development needs and roles of municipal government, may be in order. Strategic planning assistance is required to create this vision and to formulate a set of objectives and actions which can result in the achievement of common governmental goals at both central and local levels.

APPENDIX A

Persons Contacted

Principal Persons Contacted

USAID/Morocco

Mr. Tahar Berrada
Ms. Tina Dooley-Jones

Ministry of the Interior

Mr. Mohamed Tijani Es-Kali, Director of Local Finance
Mr. Mohamed Salahdine Benyoussef, Directorate of Local Collectivities

Ministry of Finance/ Tresorie Generale

Mr. Mimouni Mimoun, Director
Mr. Belmokhtar, Deputy
Mr. Arrouch
Mr. Aroui
Mr. Rhomari

Meknes/Hamrya Municipality

Mr. Samry Mohamed, Secretary General
Mr. Najib Mohamed, Regisseur/Chief, Division of Financial Resources
Mr. Labzour Ahmed, Chief, Personnel Division
Mr. Mohamed Said Daoudi, Engineer, Chief, Division of Finance

Azrou Municipality

Mr. Sabi Hassan, Chief, Division of Human Resources and Budget
Mr. Azzedine Bontalib, Assistant Chief, Division of Personnel
Mr. Taabi, Secretary General
Mr. Oubelkas, Assistant to President
Mr. Zhar Mohamed, Regisseur/Chief, Division of Financial Resources

Sefrou Municipality

Mr. Ahmed Ben Ayad, President
Mr. Mehrez, Accountant
Mr. Bennouna, Assistant to President

Others

Mr. Abderrahmane Chkairy, computer consultant

APPENDIX B

Documents Utilized

DOCUMENTS CONSULTED

1. USAID/Morocco

The Impact of Urbanization on Natural Resources: Tetouan, Morocco, May 1992 Working Paper.

2. Urba-Systemes, Rabat, Morocco

Reorganisation des Structures Municipales et Informatisation: June 1996

-Municipalite de Hamrya
-Municipalite díAzrou
-Municipalite de Sefrou

3. Royaume du Maroc, Ministere de líInterieur

Fontionnement et Gestion des Regies, Omar Akhsas, May 1996

Circulaire Relative a la Preparation des Budgets des Collectivities Locales Pour la Gestion 1997-98

Note au sujet de la mise en application du systeme de repartition de la part des Collectivities Locales dans le produit de la T.V.A.

Previsions des Depenses and Previsions des Recettes, Wilaya de Meknes, Commune Urbaine de Hamrya, 1996.

Guide des Ratios Financiers 1989: Communes Urbaines and

Guide des Ratios Financiers 1990: Communes Rurales

4. Municipalite díAzrou, budget documents.

5. Municipalite de Sefrou, budget documents

6. Mohamed Sbihi, professor, School of Law, Mohamed V University, Rabat

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